



**City of Santa Barbara**  
Airport Department

**DATE:** July 20, 2011  
**TO:** Airport Commission  
**FROM:** Karen Ramsdell, Airport Director  
**SUBJECT:** Proposed Airline Rates and Charges

---

**RECOMMENDATION:** That Commission recommend approval of the annual Airline Terminal building space square footage rate of \$77; a boarding bridge fee of \$42 per turn; and landing fee of \$2.50 per thousand pounds of gross landed weight effective August 17, 2011 through June 30, 2012.

**DISCUSSION:**

Background

The airlines serving Santa Barbara operate under annual Operating Permits rather than Lease Agreements. The Operating Permit establishes rental rates for airline terminal space, landing fees, and addresses security and operational requirements. Historically, rates are adjusted based on actual operational expenditures from the prior year.

The Airline annual Operating Permit has been expanded to incorporate specific uses for the expanded building space, Airport rules and regulations, and passenger boarding equipment in the new Airline Terminal building.

SBA Air Service Changes

As the airline industry seeks profitability, air service nationwide and at Santa Barbara continues to be impacted. The airlines continue efforts to reduce capacity, removing low performing routes and grounding obsolete aircraft. In calendar year 2010, Santa Barbara's seat capacity was reduced by 9.6% from prior year. Currently there are 5 non-stop destinations with service from five airlines. Even with the reductions, passenger traffic for calendar year 2010 exceeded 2009 by 1.2%, and year to date through May, the passenger count is up slightly .2%.

FY 2011 Partial Year Operating Permits

Last October, it was anticipated that the new Airline Terminal Building would open and be operational in April of 2011. With this in mind, a partial year Operating Permit was proposed for the period October 1, 2010 to June 30, 2011. This agreement utilized the historical ratemaking methodology, allowing Airport staff to continue negotiations with the airlines for a new rate making formula for the new building. Due to the delay in the

construction schedule, the FY 2011 Operating Permit will continue until the airlines transition to the new building.

#### Bond Debt Service Payments

The Financial Feasibility Report prepared by Jacobs Consultancy which was an exhibit to the Official Statement for the bond issue, maintained the airline rates and charges through FY 2010, but included increased rates in FY 2011 with the completion of the new Airline Terminal building and the additional debt service requirement.

The new terminal is now scheduled to open on August 17, 2011. The 2009 Bonds have capitalized interest through December 2011. The first debt service payment that requires Airport revenues occurs in June 2012. The following fiscal year (2013) represents the first full year that the debt service requirement is included in the budget and in the airline rates and charges.

#### Methodology for Calculating Airline Rates and Charges

The new rates are developed by using the FY 2012 operating and maintenance budget for the Department, \$12,634,000 (rounded), and allocating those projected expenditures to five cost centers:

1. Airfield – areas comprising runways, taxiways, ramp and grass areas with the airfield operating area, 35%;
2. Terminal building – the new passenger terminal including the sidewalk and curb adjacent to the landside of the terminal and the various non-airline functions in the building, 50%;
3. Loading bridges – at the request of the airlines a separate cost center was established for this equipment which channels passengers between the terminal and certain aircraft, .4%;
4. Commercial and industrial – established non-aviation resources, 10%; and
5. Other buildings and areas – general aviation, cargo, automobile parking, landscaping, roadways, parking lots, etc., 4.6%.

#### Recoverable Costs

Airport expense is defined as all reasonable costs and expenses incidental to, necessary for, or arising out of maintaining and repairing the Airport. The calculation of airline rates, fees, and charges is based on recovering the following costs from the FY 2012 Department Budget:

- Direct and indirect operating expenses,
- Debt service associated with capital improvements less any pledged federal grants, passenger facility charge (PFC) revenues, or customer facility charge (CFC) revenues, and
- Annual deposits to the Mandatory Reserve Funds and the Capital Reserve Fund.

Calculation of Airline Terminal Building Rental Rate (Exhibit 1)

The Airline Terminal building rental rate is calculated by adding the allocation of the Airport maintenance and operating costs, Council mandated reserves, the building's debt service, and the amortization amount for Airport cash funded capital projects. The Total Terminal Cost for FY 2012 equals \$7,199,000.

Revenue generated from Terminal passengers in the rental car, gift and food and beverage concessions is deducted from the Total Terminal Cost, leaving a Terminal Building Requirement of \$5,198,000 that needs to be recovered from airline rentals.

The rental rate charged to the airlines is calculated by dividing the amount to be recovered (\$5,198,000) by the total Terminal building square footage (67,586). The result of that calculation is the annual Terminal Building square footage rate which is \$76.91 or \$77.

Calculation of Loading Bridge Fee (Exhibit 2)

This cost center only applies to airlines that use the passenger boarding bridges. United Express will not use the boarding bridges for turboprop aircraft.

The loading bridge fee is calculated by adding the allocation of maintenance and operating costs and the debt service amount attributed to the three boarding bridges which equals the Loading Bridge Requirement to be recovered, or \$180,000.

The fee charged to the airlines is calculated by estimated the number of times the airlines will use the boarding bridges during the year based on their schedules. Each use of the bridge is called a "turn". It is estimated that there will be 4,300 "turns". The Loading Bridge Requirement to be recovered (\$180,000) is divided by the number of "turns" (4,300) which equals \$41.86 or \$42, the fee charged for each use of the boarding bridge.

Calculation of Airline Landing Fee (Exhibit 3)

The Landing Fee is a residual fee. The costs for maintenance and operation, the net debt service requirement, Council mandated reserves, and the amortization amount for Airport cash-funded capital projects are added together for a total Airport Cost Base of \$14,214,000.

The Cost Base Amount is then reduced by the total revenue projected from Commercial/Industrial properties, all other non-airline revenues, the projected Airline Terminal Building space rental, and the Boarding Bridge fees. The remaining amount equals \$1,042,000 which is the Airline Landing Fee Requirement.

Next the Projected Airline Landed Weight is estimated by using the airline schedules to project the number of landings and aircraft type and weight for the year. The weight used for each aircraft type is based on the published maximum gross landed weight. The landed weight projection for FY 2012 is 450,000 (1,000-pound units).

The Airline Landing Fee Requirement (\$1,042,000) is divided by the projected landed weight (450,000) which equals the landing fee rate (per 1,000 lbs. of landed weight) of \$2.37. However, the airlines have agreed to maintain the current \$2.50 per thousand pound landing fee to allow a margin of error on the flight schedule and the operating cost projections.

#### Airline Negotiations

The airlines Properties Representatives selected SkyWest Airlines' Manager of Airport Affairs as the lead negotiator and ask that he continue the discussions with the Airport on behalf of the airlines. Discussion on the new rate methodology began last summer, with a detailed cost analysis distributed to the airlines in October 2010.

Once the Department's budget was submitted to the City Administrator, a meeting was held with the airlines on April 27, 2011. After an explanation of the City's mandatory reserve policy, the overall concept for the methodology was accepted. However, since SkyWest will have a majority of ground loading aircraft, the airlines asked for a separate fee for the use of the boarding bridge.

Numerous versions of the rate schedule were prepared and consensus was reached with all airlines on June 30, 2010. The boarding bridge fee will be assessed based on use and will be reported monthly along with the landing fee report.

It was agreed that the Operating Agreement include a "true-up" provision inasmuch as there is no cost history for the new facility. Proposed rates for the FY 2013 period will be based on the Department's FY 2013 budget.

The proposed rates for the completion of the FY 2012 period, June 30, 2012, are \$77 annual per square foot rate for the Airline Terminal; a boarding bridge fee of \$42 per turn, and a landing fee of \$2.50 per thousand pounds of gross landed weight.

#### Cost Per Enplaned Passenger

Airlines use "Cost per Enplaned Passenger" (CPE) as a key indicator for their decisions about where to locate air service. The CPE is a ratio, not a specific charge. It represents the total costs of airport operations that are allocated to airlines and are charged to them in landing fees, rents or other specific charges, divided by the total number of passengers boarding planes each year.

As enplanements decrease the Cost per Enplaned Passenger ratio will increase or as costs increase the ratio will increase. All things being equal, CPE will get lower as passenger activity increases. Airports use the CPE ratio as a guide for cost containment, comparison with competing and/or similar sized airports. New terminal projects and associated debt will increase CPE ratios.

Currently the CPE ratio for the Airport is \$5.64. This, of course, is based on costs to maintain and operate a 21,000 s.f. terminal building with no debt. The CPE for the new terminal is based on costs to maintain a 67,000 s.f. terminal with debt service.

Santa Barbara Airport's Terminal Project budget was based on a 2008 financial feasibility analysis that determined the financial capability of the airport. A target Cost per Enplaned Passenger ratio of \$7.50 was applied to the project and used in discussions with the airlines in terms of their future costs to operate at the Airport.

Based on the new rates and current passenger traffic the CPE will be \$8.06.

#### Lease Review Sub-Committee

On July 11, 2011, the Lease Review Sub-Committee of Airport Commission met and reviewed the background associated with developing a new rate making methodology for the airlines, and unanimously recommended approval of the proposed rates.

#### Recommendation

Staff recommends that Commission recommend to City Council the airline rates and charges for \$77 annual per square foot rental rate for the airline terminal building, a boarding bridge fee of \$42 per turn, and landing fees of \$2.50 per thousand pounds of gross landed weight effective August 17, 2011 through June 30, 2012.

# EXHIBIT 1

## CALCULATION OF AIRLINE TERMINAL BUILDING RENTAL RATES

Santa Barbara Municipal Airport  
City of Santa Barbara  
Fiscal Years ending June 30

	EXISTING BUILDING				NEW BUILDING			
	Historical (a)		Projected		Projected		Projected	
	2008	2009	2010	2011 (b)	2012	2013	2014	2015
Airport Maintenance and Operation Costs (50% allocated to Terminal Building)				\$6,032,000	\$6,317,000	\$6,445,000	\$6,576,000	\$6,710,000
Deposit to the Operating Reserve Fund (c)				71,000	71,000	32,000	33,000	34,000
Net Debt Service Requirement allocated to the Terminal Building				-	647,000	1,012,000	1,012,000	1,011,000
Amortization (d)				82,000	164,000	164,000	164,000	164,000
Deficit/(credit) from prior fiscal year				-	-	-	-	-
<b>Terminal Building cost</b>	<b>\$1,619,000</b>	<b>\$1,668,000</b>	<b>\$1,606,000</b>	<b>\$6,185,000</b>	<b>\$7,199,000</b>	<b>\$7,653,000</b>	<b>\$7,785,000</b>	<b>\$7,919,000</b>
Less rental car revenue				(2,007,000)	(1,825,000)	(1,825,000)	(1,862,000)	(1,899,000)
Less concession revenue				(176,000)	(176,000)	(238,000)	(254,000)	(271,000)
<b>Total Terminal Building Requirement</b>	<b>\$1,619,000</b>	<b>\$1,668,000</b>	<b>\$1,606,000</b>	<b>\$4,002,000</b>	<b>\$5,198,000</b>	<b>\$5,590,000</b>	<b>\$5,669,000</b>	<b>\$5,749,000</b>
Terminal Building square feet (e)	21,962	21,962	21,962	21,962	67,586	67,586	67,586	67,586
Terminal Building rentable square feet (f)	15,373	15,373	15,373	15,373	37,142	37,142	37,142	37,142
Airline rentable square feet					30,444	30,444	30,444	30,444
Airline rented square feet (g)	15,373	14,678	14,678	12,652	22,104	22,104	22,104	22,104
Calculated Terminal Building rental rate				\$	76.91	\$	83.88	\$
Imposed Terminal Building rental rate	\$	73.94	\$	75.00	\$	66.81	\$	77.00
<b>Airline Terminal Building space rental revenue</b>	<b>\$1,155,865</b>	<b>\$1,130,906</b>	<b>\$1,118,064</b>	<b>\$1,014,000</b>	<b>\$1,702,000</b>	<b>\$1,835,000</b>	<b>\$1,857,000</b>	<b>\$1,901,000</b>

(a) Source: City of Santa Barbara.

(b) Presents a blended rental rate, increased to \$80.00/sqft effective October 1, 2010. Successive rate adjustments will be effective the first day of each Fiscal Year. The new Terminal Building is assumed to open July 1, 2011. Actual opening may differ.

(c) The FY 2011 deposit is the portion of the Airport-wide deposit allocated to the Terminal Building. All following years' deposits are 25% of the incremental change in the Airport operating expense allocated to the Terminal Building.

(d) Amortization of all Airport cash-funded projects in the Terminal Building cost center.

(e) Total terminal building square feet.

(f) Total terminal rentable square feet, including ticketing, baggage, and concessions.

(g) Assumes 72.6% occupancy in the new Terminal Building.



# EXHIBIT 2

## CALCULATION OF LOADING BRIDGE FEES Santa Barbara Municipal Airport City of Santa Barbara Fiscal Years ending June 30

	Historical			Projected			
	2008	2009	2010	2011	2012 (a)	2013	2015
<b>LOADING BRIDGE COST CENTER</b>							
Maintenance and Operation costs (b)	\$0	\$0	\$0	\$0	\$48,000	\$50,000	\$56,000
Deposit to the Operating Reserve Fund	-	-	-	-	-	-	-
Net Debt Service Requirement allocated to Loading Bridges	-	-	-	-	132,000	208,000	208,000
Amortization	-	-	-	-	-	-	-
<b>Loading Bridge Requirement</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$180,000</b>	<b>\$258,000</b>	<b>\$264,000</b>
Projected airline turns (c)					4,300	4,400	4,400
Calculated Loading Bridge Fee rate					\$ 41.86	\$ 58.64	\$ 60.00
<b>Imposed Loading Bridge Fee rate</b>					<b>\$ 42.00</b>	<b>\$ 59.00</b>	<b>\$ 60.00</b>
Projected airline turns					4,300	4,400	4,400
<b>Loading Bridge Fee revenues</b>					<b>\$181,000</b>	<b>\$260,000</b>	<b>\$264,000</b>

(a) Assumes the fee is first imposed July 1, 2011. Actual opening may differ.  
(b) Assumes M&O costs in the first year of operation to be \$48,000, escalating at 5.0%.  
(c) Turns are shown as departures for aircraft that utilize a loading bridge.

# EXHIBIT 3

## CALCULATION OF AIRLINE LANDING FEES Santa Barbara Municipal Airport City of Santa Barbara Fiscal Years ending June 30

	Historical (a)			Projected				
	2008	2009	2010	2011	2012	2013	2014	2015
Maintenance and Operation Costs (b)				\$12,064,000	\$12,634,000	\$12,891,000	\$13,152,000	\$13,419,000
Net Debt Service Requirement (c)				-	1,149,000	1,799,000	1,799,000	1,797,000
Deposit to Operating Reserve Fund (d)				178,000	142,000	64,000	65,000	67,000
Amortization (e)				-	289,000	289,000	289,000	289,000
Deposit to Capital Reserve Fund				-	-	-	-	-
Deficit/(credit) from prior fiscal year				-	-	-	-	-
Airport Cost Base				\$12,242,000	\$14,214,000	\$15,043,000	\$15,305,000	\$15,572,000
Less: Commercial and Industrial revenue (f)				(4,231,000)	(4,171,000)	(4,171,000)	(4,338,000)	(4,425,000)
Less: All other nonairline revenues				(6,821,000)	(7,118,000)	(7,500,000)	(7,641,000)	(7,786,000)
Less: Airline Terminal Building space rentals				(1,014,000)	(1,702,000)	(1,835,000)	(1,857,000)	(1,901,000)
Less: Airline Loading Bridge fees				-	(181,000)	(260,000)	(264,000)	(264,000)
Airline Landing Fee Requirement				\$176,000	\$1,042,000	\$1,277,000	\$1,205,000	\$1,196,000
Projected airline landed weight (g) (1,000-pound units)				450,000	440,000	454,000	458,000	462,000
Calculated landing fee rate								
Projected landing fee rate (h) (i) (per 1,000-pound units of landed weight)	\$	1.98 \$	1.98 \$	1.98 \$	2.37 \$	2.50 \$	2.81 \$	2.63 \$
Airline revenue from landing fees	\$1,101,259	\$993,767	\$994,000	\$1,067,000	\$1,100,000	\$1,277,000	\$1,205,000	\$1,196,000

(a) Source: City of Santa Barbara.

(b) See Exhibit D.

(c) See Exhibit C.

(d) Equal to 25% of the annual change in Airport operating expenses.

(e) Amortization of all projects funded with Airport cash.

(f) See Exhibit E.

(g) See Exhibit F.

(h) Historically, rates have been recalculated every October 1, so rates shown through FY 2011 are blended. From FY 2012 on, rates are set each FY

(i) Assumes a \$2.50 minimum landing fee rate after the opening of the new Terminal Building.

6/30/2011